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RUEHGG/UN SECURITY COUNCIL COLLECTIVE PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 ROME 000247

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E.O. 12958: DECL: 02/28/2018

TAGS: [KNNP](#) [MNUC](#) [PARM](#) [IAEA](#) [IR](#) [IT](#)

SUBJECT: IRAN: ITALY CONTESTS EDISON DEAL VIOLATES ISA;
STRONGLY SUPPORTS UNSCR

REF: A. STATE 16620

[1](#)B. STATE 19200

Classified By: Econ Minister Counselor Thomas Delare for reasons 1.4 b
and d

[1](#)1. (U) This is an action request, please see paragraph 10.

Summary.

[1](#)2. (C) Econ M/C delivered points on the Iran Sanctions Act (ISA) and reported investment by Italian energy company Edison in Iran's Dayyer Block to MFA Political Director Giulio Terzi. Econ M/C also raised U.S. displeasure at Italy's decision to break silence in the EU on Iran. Terzi agreed to share our message with FM D'Alema and claimed to appreciate our argument that investments such as Edison's are not in the "spirit" of the international effort to exert "moral suasion," particularly as we move toward a third UNSC resolution. Nevertheless, Terzi argued Edison's investment does not violate the ISA and repeatedly stressed the GOI's difficulty with the P5 plus one framework, making it difficult for Italy to be forward leaning within the EU. He said Italy agreed the IAEA report shows Iranian compliance to be unsatisfactory and stressed Italy will be active in convincing other UNSC members to move rapidly to adopt the third Iran UNSCR. Finally, he urged the USG to include Italy in the coordination of any Ministerial statements issued after a UNSC vote. End Summary.

Edison Deal: MFA Was Consulted - No Legal Basis to Deny

[1](#)3. (C) Econ M/C delivered Ref A points to MFA Political Director Terzi on February 27. Terzi undertook to share our message requesting Italian energy company Edison reconsider its investment in Iran's Dayyer block with FM D'Alema. He also said he understood our argument that such investments were not in the "spirit" of the international effort to bring Iran into compliance with UNSC resolutions. Despite that, he observed that Edison's deal was not technically in violation of UNSCR 1737, UNSCR 1747, or any existing or proposed EU sanctions. In an attempt to move a bit away from accepting any sort of responsibility for Edison's actions, Terzi noted that Edison is a multinational company with significant French ownership. In response, Econ M/C said the USG also will raise its concerns with the GOF, adding that he was meeting with Terzi because Edison is headquartered in Milan and traded on the Milan stock exchange. Terzi asked Econ M/C to inform Washington that from a legal point of view the MFA could not have opposed Edison's investment since it does not violate existing UNSCRs or the EU sanctions regime.

¶4. (C) Turning to the issue of the Iran Sanctions Act (ISA), Terzi argued that Edison's investment does not violate ISA since the 28 million euro (42 million dollar) deal will be spread out over four years. Terzi's understanding is that ISA prohibits investments of more than 20 million dollars annually. Terzi's interpretation of section 5 of ISA is that larger investments, if broken up into annual investments of less than 20 million dollars, do not violate the law. Drawing from ref A non-paper, Econ M/C replied that ISA applies to all investments of 20 million or more, regardless of the time period over which the investments are made (see Action Request at paragraph 10).

IAEA Report - GOI Ready to Push for Further UNSC Action

¶5. (C) Terzi said the IAEA's latest report showed Iranian UNSC/IAEA compliance remains unsatisfactory and that he hoped the UNSC would be able to take swift action on a third UNSCR.

He was concerned that the report could be used by certain countries (Russia, China, Libya, Indonesia) to argue against the need for further UNSC action, but stressed that Italy is prepared to actively lobby those countries. He suggested the new element of weaponization might be critical in pressing reluctant countries on the need for further UNSC action. (Note. Poloff subsequently shared Ref B points on the IAEA report with MFA non-proliferation officer Laura Aghillare who reiterated Terzi's comments that Italy shares USG concerns regarding Iranian non-compliance. End Note.)

¶6. (C) Terzi raised Italy's frustration at being excluded from the P5 plus one decision-making framework and noted that he had heard that UNSC action was currently blocked not around the text of the actual resolution, but rather around agreement on a coordinated Ministerial statement to be

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released upon passage of the resolution. He referenced the recent February 25 P5 plus one meeting in Washington and a February 26 New York Times article on the meeting saying that Italy would like to be constructive and would have substantive suggestions for such a ministerial statement.

Breaking EU Silence Procedure -- Pride & Economics

¶7. (C) Terzi stressed that the decision to break EU silence was made at the "highest-levels" and that Iran issues continue to be dealt with personally by Foreign Minister D'Alema. He said the decision to speak out was a difficult one, but that fundamentally, Italy cannot consent to decisions which have a significant Italian impact if Italy is not consulted appropriately. He concluded by saying that if Italy is not brought into the P5 plus one process, the GOI "will remain a problem." (Comment: Terzi is very careful in his use of language, so this remark is frankly worrisome. Econ M/C responded at this point that "Italy does not want to be an outlier" and then returned to this theme before departing, telling Terzi that problematic behavior would make Italy run the risk of simply becoming "static" or "background noise to the entire process -- inducing the other players to tune them out." End Comment)

¶8. (C) MFA Iran Desk Officer Kluzer, in a separate meeting, told Poloff the draft EU statement circulated by the Slovenian Presidency misrepresented the agreement reached between EU foreign ministers not to take action until the next UNSCR on Iran is passed. Kluzer also noted Italy has concerns, ignoring U.S. actions, regarding the implications of EU-only action against Bank Melli. According to Kluzer, Italy also fears that Bank Melli will not repay hundreds of millions of euros owed to Italian entities if EU-only measures are implemented ahead of a new UNSCR. He said Italy does not think Iran will take such retaliatory action if the measures come from the UNSC, which is why Italy is a strong

advocate for UNSC action first.

Would Italian Inclusion in P5 plus 1 make a Difference?

¶9. (C) Kluzer said Germany shared Italian concerns about potential Iranian retaliation against EU-only actions and had quietly thanked Italy for breaking the EU silence procedure. He explained that the Germans traditionally refrained from making any comments in the EU discussions on Iran measures since, though often opposed to the measures, they don't want to jeopardize their P5 plus one role. He said he suspected Italy would similarly cave and put its financial concerns on a back-burner in return for a greater consultative role in Iran discussions. He said Germany saw their P5 plus one participation as a sort of alternate voice on UNSC issues and a potential avenue toward future UNSC membership.

¶10. (SBU) Action request. Post requests guidance on ISA thresholds and applicability in the case of the Edison four-year 28 million euro investment.
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